NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. The Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the County (primary government) and its component unit. The component unit discussed herein is included in the County's reporting entity because of the significance of its operational or financial relationship with the County.

B. Individual Component Unit Disclosures

Blended Component Units -- The County of Fauquier has no blended component units.

Discretely Presented Component Units -- The Fauquier County School Board was created as a separate legal entity by the County to oversee the operation and management of the elementary and secondary public schools in the County. School Board members are elected by the voters of the County for terms of four years. The School Board is fiscally dependent upon the County because the County Board of Supervisors provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The Board of Supervisors also approves all debt issuances of the School Board, which are general obligations of the County. The School Board does not issue separate financial statements.

C. Related Organizations

Fauquier County Water and Sanitation Authority -- The County created the Authority to provide water and sewer services to areas of the County.

Fauquier County Industrial Development Authority -- The County created the Authority to attract and provide financing for industries within the County.

These organizations are not included as component units because, although the Board of Supervisors appoints the board members, the County is neither financially accountable for nor can it impose its will on these Authorities.

D. Financial Statement Presentation

The accounts of the County are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. Each fund is a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses; and segregates funds according to their intended purpose. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds are grouped in the financial statements as follows:

1. **Governmental Funds** account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Fund measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Funds are:

   - **General Fund**
     The General Fund is the general operating fund of the County. This fund accounts for all revenues and expenditures of the County that are not accounted for in other funds.

D. <u>Financial Statement Presentation</u> (continued)

- **Special Revenue Funds**
  The Special Revenue Funds account for the proceeds of revenue sources that are legally restricted to expend for specific purposes, excluding expendable trusts and major capital projects. Special Revenue Funds consist of the Joint Dispatch Center, funded through a tax levied on the basis of telephone connections; and the Fire and Rescue Fund, funded through a dedicated portion of the real estate tax collections.

- **Capital Projects Funds**
  Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. The Capital Projects Funds consist of the Capital Projects Fund for the County and Schools, and the Utility Projects Fund for general government utility projects.

2. **<u>Proprietary Funds</u>** account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position and cash flows. The Proprietary Funds consist of Enterprise and Internal Service Funds.

- **Enterprise Funds**
  The Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises, or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Enterprise Funds of the County are the Solid Waste Fund, and the Airport Fund.

- **Internal Service Funds**
  The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the County government. Internal Service Funds consist of the Fleet Maintenance Fund and the Health Insurance Fund.

3. **<u>Fiduciary Funds</u>** include the Trust and Agency Funds, which account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Expendable Trust, Pension Trust and Agency Funds.

- **Expendable Trust Funds**
  The Expendable Trust Funds of the County are the Library Trust, Parks and Recreation Trust, and the Public and Private Trust.

- **Pension Trust Fund**
  The Pension Trust Fund is the Length of Service Award Program.

- **Agency Funds**
  The Agency Funds of the County are the Disability Service Board, Special Welfare, Revenue Maximization, Street Light, Service to Other Governmental Units, Performance Bond, and Detention Center.

4. **<u>Account Groups</u>** are used to establish accounting control over general fixed assets and general long-term liabilities. Long-term obligations and fixed assets related to proprietary funds are accounted for within the proprietary funds. A general fixed assets account group and a long-term debt account group are included herein.

5. **<u>Combined/Combining Format</u>**

- **Combined Financial Statements**
  These statements are referred to as General Purpose Financial Statements and provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. All funds and account groups of a specific fund classification are combined and presented as one in the financial statements.

5. **Combined/Combining Format (continued)**

For example, all funds classified as Fiduciary funds are combined and presented under the caption "Fiduciary Funds."

- **Combining Financial Statements**
  These statements are presented by fund type, and display the individual financial statements for each fund of a given fund type. For example, the Fiduciary Funds Combining Balance Sheet presents the financial results of each individual trust and agency fund.

6. **Budgetary Comparison Statements** compare budget and actual data for all governmental funds for which budgets were adopted. These statements include the Combined and Combining Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual. A review of the budgetary comparisons presented herein will disclose how accurately the governing body was able to forecast the revenues and expenditures of the County.

7. **Memorandum Only** columns are shown on the Combined Statements and are captioned Totals (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

E. **Basis of Accounting**

1. Governmental Funds

Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 60 days after year end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the County. Licenses, permits, fines and rents are recorded as revenues when received.

Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Interest on long-term debt is recognized when due except for interest due on July 1, which is accrued.

2. Proprietary Funds

The accrual basis of accounting is used for the Enterprise and Internal Service Funds. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The Financial Accounting Standards Board (FASB) and its predecessor organizations have issued accounting standards for activities in the private sector. The County's proprietary funds have elected not to apply those standards issued after November 30, 1989. These funds, however, have applied all applicable standards issued by the Governmental Accounting Standards Board (GASB).

3. Fiduciary Funds

As with governmental funds, expendable Trust and Agency funds use the modified accrual basis of accounting. As with Proprietary Funds, the Pension Trust Fund uses the accrual basis of accounting.

F. Budgets and Budgetary Accounting

The following procedures are used by the County in establishing the budget reflected in the financial statements:

1. Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain citizen comments.

3. Prior to June 30, the budget is legally enacted.

4. Appropriations place legal restrictions on expenditures at the department level. Expenditures may not exceed appropriations at the department level. Only the Board of Supervisors can revise the appropriation for each department. The Board of Supervisors has adopted a policy for processing changes to the adopted budget. The School Board is authorized to transfer budgeted amounts within the school system's categories.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and the Capital Projects Fund. Budgets are legally adopted for these funds and the School Fund.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

7. Except for the Capital Projects Fund, appropriations lapse on June 30, for all County units. Encumbrances outstanding at year end may be reappropriated by the Board of Supervisors. Appropriations for the Capital Projects Fund are rolled over to subsequent fiscal years.

8. All budget data presented in the accompanying financial statements is the revised budget for the year.

G. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to $754,781 for property taxes at June 30, 2002.

H. Investments

Investments are stated at fair value. Values of shares in the state-sponsored Local Government Investment Pool (LGIP) and State Non-Arbitrage Program (SNAP) reflect fair value. Certificates of deposit are recorded in the accompanying financial statements as cash and investments.

The Virginia LGIP and SNAP investments are regulated by the State Treasury Board. The fair value of the position in LGIP is the same as the value of the pool shares.

I. Cash and Cash Equivalents

For purposes of the Statement of Cash flows, the County's cash and cash equivalents include cash in banks, Local Government Investment Pool assets and short-term U.S. Government or U. S. Agency obligations with an original maturity of three months or less which are readily convertible to known amounts of cash.

J. Property, Plant and Equipment

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an

J. Property, Plant and Equipment (continued)

estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types has been provided over the estimated useful lives of those assets using the straight-line method as follows:

Structures	25 years
Equipment	3-20 years

Capital contributions used to acquire assets in proprietary funds are amortized over the useful life of the related assets.

K. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants from government agencies. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent the County's managerial plans for future use of financial resources.

L. Landfill Closure Costs

The County has accrued a liability for estimated landfill closure costs at the County landfill. These costs include both final closure costs and postclosure monitoring costs.

M. Bond Issuance Costs

Bond issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the "bonds-outstanding method", which approximates the effective interest method.

N. Compensated Absences

In governmental fund types, the cost of vacation and sick pay benefits (compensated absences) is recognized when payments are made to employees. A liability for all governmental fund type vested accrued vacation and sick pay benefits is recorded in the General Long-Term Debt Account Group (GLTDAG), representing the County's commitment to fund such costs from future operations. Proprietary fund types accrue vacation and sick leave benefits in the period they are earned.

O. Inventories

Inventories are valued at cost, which approximates market, using the first-in first-out method. These inventories consist primarily of parts held for consumption.

P. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General, Special Revenue and Capital Projects funds and in the Component Unit School Board funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Funds must be reappropriated in the ensuing fiscal year to provide for the payment of encumbrances that were unliquidated at the end of the previous year.

NOTE 2 -- CASH AND INVESTMENTS

Deposits -- At year-end the carrying value of the County's primary government deposits with banks and savings institutions was $7,671,624, and the bank balances were $10,546,018. Of the bank balances, $429,520 covered by Federal depository insurance. The carrying amount of deposits for the School Board, a discretely presented component unit, was $390,296, and the bank balances were $407,329. Of the bank balance, $407,329 was covered by Federal depository insurance. Bank balances in excess of federal insurance are protected under the provisions of the Virginia Security for Public Deposits Act ("the Act").

The Act provides for a pooling of collateral pledged with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for any one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the Act are considered fully secured and thus are not categorized below.

Investments -- Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, the African Development Bank, "Prime Quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the state Treasurer's Local Government Investment Pool (LGIP). Bond proceeds subject to arbitrage rebate are invested in the State Non-Arbitrage Program (Virginia SNAP) (See Note 1 H).

The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its safekeeping agent in the County's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's agent (if a broker/dealer) or trust department (if a bank) in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its agent or trust department or safekeeping agent but not in the County's name. The investments in the LGIP and SNAP are not categorized as to assumed risk because they are considered pooled investments in nature, and are not evidenced by securities that exist in physical or book-entry form.

The County's investments in the LGIP and SNAP are authorized by the Code of Virginia and are managed under the direction of the State Treasurer. The fair value in the external investment pool is the same as the value of the pool shares at June 30, 2002.

NOTE 2 -- CASH AND INVESTMENTS (CONTINUED)

Investments subject to categorization:

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
U.S. Treasury & Agencies	$ 5,986,906	$ -	$ -	$ 5,983,906	$ 5,983,906
Corporate bonds & commercial paper	2,511,425	-	-	2,511,425	2,511,425
Repurchase Agreements	-	-	34,427,391	34,427,391	34,422,391
Total investments	$ 8,495,331	$ -	$ 34,427,391	$ 42,922,722	$ 42,922,722
Investments not subject to categorization:					
Assets in State Non-Arbitrage Program Investments Pool				17,908,046	17,908,046
Local Government Investment Pool				10,873,863	10,873,863
Total deposits and investments				$ 71,704,631	$ 71,704,631

A reconciliation of cash and investments shown on the Combined Balance Sheet for the primary government is as follows:

Cash and Cash Equivalents	$ 7,671,624
Carrying amount of investments	71,704,631
Cash on hand	1,000
Total	$ 79,377,255

At year end the Component Unit-School Board's cash and deposit balances were as follows:

Deposits	$ 390,296
Cash on hand	1,350
Total cash and deposits	$ 391,646

NOTE 3 -- PROPERTY TAXES RECEIVABLE

Real property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two equal installments on June 5 and December 5. Personal property is assessed at its value on January 1 or when it is acquired or brought into the County. Personal property taxes are due and payable October 5. The County bills and collects its own property taxes.

NOTE 4 -- DUE FROM OTHER GOVERNMENTAL UNITS

The following is a summary of amounts due from other governmental units at June 30, 2002.

	Primary Government	Component Units
Commonwealth of Virginia:		
State sales tax	$ -	$ 1,049,456
Local sales tax	847,629	-
Grants	1,938	554,626
Shared expenses	376,946	-
Welfare	422,252	-
Miscellaneous	3,407	-
Federal Government:		
Grants	25,690	614,466
Welfare	208,120	-
School lunch program	-	20,621
Airport	50,882	-
Total	$ 1,936,864	$ 2,239,169

NOTE 5 -- INTERFUND OBLIGATIONS

The following is a summary of interfund obligations at June 30, 2002.

	Due From Primary Government	Due to Component Unit	Interfund Receivables	Interfund Payables
General Fund	$ -	$ 5,697,772	$ -	$ -
School Fund	5,697,772	-	-	-
Landfill Fund	-	-	-	500,000
CIP Fund	-	-	500,000	-
Totals	$ 5,697,772	$ 5,697,772	$ 500,000	$ 500,000

NOTE 6 -- FIXED ASSETS

General Government

The following is a summary of changes in the general fixed assets account group during the fiscal year.

	Balance June 30, 2001	Additions	Adjustments and Deletions	Balance June 30, 2002
Land	$ 8,851,817	$ 2,505,116	$ 1,447,850	$ 9,909,083
Buildings and improvements	11,470,125	2,889,808	-	14,359,933
Machinery and equipment	4,989,468	942,071	751,497	5,180,042
Data processing equipment	1,323,320	91,795	940,436	474,679
Construction in progress	1,431,950	1,164,628	-	2,596,578
Total General Fixed Assets	$ 28,066,680	$ 7,593,418	$ 3,139,783	$ 32,520,315

Proprietary Funds
The following is a summary of changes in fixed assets of the proprietary funds during the fiscal year.

	Balance July 1, 2001	Additions	Adjustments and Deletions	Balance June 30, 2002
Airport Fund:				
Land	$ 4,608,225	$ 313,081	$ -	$ 4,921,306
Improvements	943,850	-	-	943,850
Construction in progress	26,666	487,288	-	513,954
Totals	$ 5,578,741	$ 800,369	-	$ 6,379,110
Less accumulated depreciation	(195,392)	(27,471)	-	(222,863)
Net Fixed Assets	$ 5,383,349	$ 772,898	$ -	$ 6,156,247
Landfill Fund:				
Landfill site	$ 1,637,136	$ -	$ -	$ 1,637,136
Cell improvements	2,111,920	-	-	2,111,920
Equipment	287,286	191,444	65,970	412,760
Roads	750,000	104,306	-	854,306
Facilities	129,334	32,411	-	161,745
Construction in progress	832,362	66,603	-	898,965
Totals	$ 5,748,038	$ 394,764	$ 65,970	$ 6,076,832
Less accumulated depreciation	(464,655)	(194,910)	65,970	(593,595)
Net Fixed Assets	$ 5,283,383	$ 199,854	$ -	$ 5,483,237
Fleet Maintenance Fund:				
Buildings	$ 349,000	$ -	$ -	$ 349,000
Equipment	434,721	5,000	44,886	394,835
Totals	$ 783,721	$ 5,000	$ 44,886	$ 743,835
Less accumulated depreciation	(536,414)	(36,692)	39,886	(533,220)
Net Fixed Assets	$ 247,307	$ (31,692)	$ 5,000	$ 210,615
Total proprietary funds:				
Land	$ 4,608,225	$ 313,081	$ -	$ 4,921,306
Landfill site	1,637,136	-	-	1,637,136
Improvements	3,055,770	-	-	3,055,770
Equipment	722,007	196,444	110,856	807,595
Buildings	349,000	-	-	349,000
Roads	750,000	104,306	-	854,306
Facilities	129,334	32,411	-	161,745
Construction in progress	859,028	553,891	-	1,412,919
Totals	$ 12,110,500	$ 1,200,133	$ 110,856	$ 13,199,777
Less accumulated depreciation	(1,096,461)	(259,073)	105,856	(1,249,678)
Net Fixed Assets	$ 11,004,159	$ 941,060	$ 5,000	$ 11,950,099

NOTE 6 -- FIXED ASSETS (CONTINUED)

Component Unit School Board

The following is a summary of changes in the School Board component unit's general fixed assets account group during the fiscal year.

	Balance July 1, 2001	Additions	Adjustments and Deletions	Balance June 30, 2002
Land	$ 4,204,136	$ -	$ 37,150	$ 4,166,986
Buildings and improvements	80,083,473	-	1,349,600	78,733,873
Machinery and equipment	11,809,452	493,681	794,108	11,509,025
Data processing equipment	1,150,119	213,152	40,308	1,322,963
Construction in progress	11,006,611	4,145,273	-	15,151,884
Total	$ 108,253,794	$ 4,852,106	$ 2,221,166	$ 110,884,731

NOTE 7 -- CONTRIBUTED CAPITAL

The following are changes in capital contributed in the Airport Fund for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Balance June 30, 2002
County	$ 787	$ -	$ 787
Federal	3,570,968	-	3,570,968
Commonwealth	542,130	-	542,130
Total	$ 4,113,885	$ -	$ 4,113,885
Less accumulated amortization	(153,410)	(23,688)	(177,098)
Net	$ 3,960,475	$ (23,688)	$ 3,936,787

The following are changes in capital contributed in the Fleet Maintenance Fund for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Balance June 30, 2002
County	$ 224,893	$ -	$ 224,893
Total	$ 224,893	$ -	$ 224,893

NOTE 8 -- BOND ISSUE COSTS

The Landfill incurred bond issue costs totaling $161,371. The costs are being amortized over the life of the bonds. Amortization expense during the fiscal year ended June 30, 2002 totaled $8,965 and accumulated amortization totals $121,685 at year end.

The following table summarizes total bond issue costs with related amortization at June 30, 2002:

Total Bond Issue Costs	**Amortization Years**	**Amortization Expense – Prior**	**Amortization Expense – Current**	**Net Book Value**
$ 161,371	$ 18	$ 112,721	$ 8,965	$ 39,685

NOTE 9 -- LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

Annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Capital Leases Principal	Capital Leases Interest	Revenue Bonds Principal	Revenue Bonds Interest	Enterprise Bonds Principal	Enterprise Bonds Interest
2003	$ 684,717	$ 359,024	$ -	$ 147,425	$ 290,000	$ 178,273
2004	783,245	388,548	115,000	147,425	305,000	163,192
2005	812,701	356,847	120,000	142,710	320,000	147,328
2006	843,132	323,861	125,000	137,790	335,000	129,747
2007	879,586	289,023	130,000	132,665	355,000	111,490
2008	445,000	257,859	135,000	127,010	375,000	91,875
2009	460,000	241,282	140,000	121,138	395,000	71,340
2010	485,000	217,823	145,000	115,048	415,000	49,615
2011	500,000	197,937	155,000	108,377	-	-
2012	525,000	176,812	160,000	101,248	-	-
2013	545,000	153,975	170,000	93,487	-	-
2014	575,000	126,180	175,000	85,242	-	-
2015	605,000	95,418	185,000	76,755	-	-
2016	635,000	63,050	195,000	67,320	-	-
2017	665,000	32,253	205,000	57,375	-	-
2018	-	-	215,000	46,920	-	-
2019	-	-	225,000	35,955	-	-
2020	-	-	235,000	24,480	-	-
2021	-	-	245,000	12,495	-	-
Totals	$ 9,443,381	$ 3,279,892	$ 3,075,000	$ 1,780,865	$ 2,790,000	$ 942,860

Changes in long-term obligations

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
General Long-term Debt:				
Capital Leases................................	$ 2,395,454	$ 7,400,000	$ 352,073	$ 9,443,381
Revenue Bonds..............................	3,075,000	-	-	3,075,000
Compensated absences..................	2,458,248	-	32,560	2,425,688
Total General Long-term Debt............	$ 7,928,702	$ 7,400,000	$ 384,633	$ 14,944,069
Enterprise Fund Debt:				
Solid Waste Bonds	$ 3,065,000	$ -	$ 275,000	$ 2,790,000
Total Enterprise Debt	$ 3,065,000	$ -	$ 275,000	$ 2,790,000
Primary Government Totals................	$ 10,993,702	$ 7,400,000	$ 659,633	$ 17,734,069

Details of Long-term Obligations

	Amount Outstanding
General Long-term Debt	
Capital Leases:	
$3,580,000 capital lease agreement for lease/purchase of office building located at 320 Hospital Hill Drive, Warrenton, due in semiannual installments, including interest, through February 1, 2007 with a taxable portion of $530,000 at an interest rate of 6.65% and tax-exempt portion of $3,050,000 at an interest rate of 4.95%	$ 2,043,381
$7,400,000 Public Safety Radio System 2002A, issued June 6, 2002, maturing annually beginning April 1, 2017, with interest payable semiannually at rates from 3.1% to 4.85%	7,400,000
Total Capital Leases	9,443,381
Revenue Bonds:	
$3,075,000 Sewer Revenue Bonds, Series of 2001, issued June 28, 2001, maturing annually beginning April 1, 2004 through April 1, 2021, with interest payable semiannually at rates from 4.1% to 5.1%	3,075,000
Compensated Absences Payable, General Government	2,425,688
Total General Long-term Debt	14,944,069
Enterprise Bonds	
$4,880,000 Solid Waste Disposal System Revenue Bonds, Series 1993A, issued November 1, 1993, maturing annually beginning May 1, 1994 through May 1, 2011, with interest payable semiannually at rates from 2.8% to 5.5%	2,790,000
Total Enterprise Long-term Debt	2,790,000
Total Primary Government Long-term Debt	$ 17,734,069

Compensated absences are not included in the annual requirements to amortize long-term debt since it cannot be estimated when they will be paid.

COMPONENT UNIT SCHOOL BOARD

Annual requirements to amortize long-term debt and related interest are as follows:

	General Obligation Bonds	
Fiscal Year	Principal	Interest
2003	$ 3,800,000	$ 2,376,495
2004	3,765,000	2,111,446
2005	3,715,000	1,901,769
2006	3,665,000	1,698,830
2007	3,630,000	1,495,705
2008	3,575,000	1,295,475
2009	3,495,000	1,093,651
2010	2,860,000	914,872
2011	2,490,000	775,421
2012	2,455,000	650,644
2013	2,145,000	536,451
2014	2,140,000	429,581
2015	1,350,000	340,292
2016	1,350,000	269,064
2017	1,345,000	197,832
2018	895,000	138,462
2019	720,000	95,420
2020	720,000	56,950
2021	545,000	27,017
2022	320,000	8,160
Totals	$ 44,980,000	$ 16,413,537

Changes in Long-term Obligations

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
General Long-term Debt:				
School Bonds	$ 41,460,000	$ 6,410,000	$ 3,385,000	$ 44,485,000
Proceeds from Refunding Bond	-	8,495,000	-	8,495,000
Payment to Refunded Bond Escrow Agent	-	-	8,000,000	(8,000,000)
Compensated absences	3,717,750	-	472,534	3,245,216
Total General Long-term Debt	$ 45,177,750	$ 14,905,000	$ 11,857,534	$ 48,225,216

Details of Long-term Obligations

		Amount Outstanding
General Obligation Bonds		
$16,000,000 General Obligation School Bonds, Series of 1993, issued June 10, 1993, maturing annually beginning July 15, 1994 through July 15, 2013, with interest payable semiannually at rates from 5.0% to 5.65%	$	1,600,000
$12,985,000 Virginia Public School Authority Bonds, Series 1994A, issued December 15, 1993, maturing annually beginning December 15, 1994 through December 15, 2011, with interest payable semiannually at rates from 5.1% to 5.225%		11,430,000
$9,000,000 Virginia Public School Authority Bonds 1996B, issued November 14, 1996 maturing annually beginning July 15, 1997 through July 15, 2017 with interest payable semiannually at rates from 5.1% to 5.225%		6.750,000
$3,500,000 Virginia Public School Authority Bonds, Series 1997B, issued November 20, 1997, maturing annually beginning July 15, 1998 through July 15, 2017 with interest payable semiannually at rates from 4.35% to 5.35%		2,800,000
$3,500,000 Virginia Public School Authority Bonds, Series 1999A, issued November 29, 1999, maturing annually beginning July 15, 2000 through July 15, 2019, with interest payable semiannually at rates from 5.10% to 6.10%		3,150,000
$4,575,000 Virginia Public School Authority Bonds, Series 200B, issued November 16, 2000, maturing annually beginning July 15, 2001 through July 15, 2020, with interest Payable semiannually at rates from 4.85% to 5.60%		4,345,000
$8,495,000 General Obligation School Bond, Series of 2001, issued July 24, 2001, maturing annually from July 15, 2002 through July 15, 2013, with interest payable at rates from 3.0% to 4.6%		8,495,000
$6,410,000 Virginia Public School Authority Bonds, Series 2001C, issued November 15, 2001, maturing annually beginning July 15, 2021 with interest payable semiannually at rates from 4.85% to 5.60%		6,410,000
Total General Obligation Bonds		44,980,000
Compensated absences payable		3,245,216
Total Component Unit Long-term Obligations	$	48,225,216

NOTE 10 -- CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES

The County's primary government has outstanding accrued leave payable totaling $2,425,688 in the General Long-term Debt Account Group and $22,740 in the Solid Waste Fund. The Component Unit--School Board has outstanding accrued leave payable totaling $3,245,216.

NOTE 11 -- DEFINED BENEFIT PENSION PLAN

A. Plan Description

The County contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. Employees with 30 years or more of credited service are entitled to an annual benefit equal to 1.7 percent of AFS for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The County has assumed this 5% member contribution. In addition, the County is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's and School Board non-professional employer contribution rates for the fiscal year ended 2002 were 4.00% and 0.00% of annual covered payroll, respectively.

The School Board's professional employees contributed $3,542,219, $4,823,104, and $3,271,018 to the teacher cost-sharing pool for the fiscal years ended June 30, 2002, 2001, and 2000, respectively and these contributions represented 9.24%, 12.54%, and 9.50%, respectively, of current covered payroll.

C. Annual Pension Cost

For 2002, the County's annual pension was equal to the County's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

For 2002, the School Board's annual pension cost for non-professional employees of $144,855 was equal to the County's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

	County	Non-Professional School Board
Valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method.	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	14 years	0 years
Asset valuation	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return	8%	8%
Projected salary increases - Non LEO	4.25% to 6.10%	4.25% to 6.10%
- LEO employees.	4.5% to 5.75%	4.5% to 5.75%
Cost of living adjustments	3%	3%
Inflation	3%	3%

D. Trend Information

County:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 1998	$776,601	100%
June 30, 1999	$661,893	100%
June 30, 2000	$666,808	100%
June 30, 2001	$789,685	100%
June 30, 2002	$807,402	100%

School Board Non-professionals:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 1998	$138,149	100%
June 30, 1999	$167,027	100%
June 30, 2000	$171,726	100%
June 30, 2001	$201,191	100%
June 30, 2002	$144,855	100%

E. Required Supplementary Information

Schedule of Funding Progress for the County

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 1994	9,569,094	10,394,011	824,917	92.0%	7,539,849	10.9%
June 30, 1996	13,186,955	13,509,485	322,530	97.6%	8,844,461	3.6%
June 30, 1998	19,240,169	18,632,184	(607,985)	103.3%	10,886,392	(5.6%)
June 30, 1999	22,918,978	21,193,201	(1,725,777)	108.1%	10,913,383	(15.8%)
June 30, 2000	27,308,581	24,123,134	(3,185,447)	113.2%	12,130,332	(26.2%)
June 30, 2001	30,809,087	27,017,163	(3,791,904)	114.0%	14,868,120	(25.5%)

NOTE 11 -- DEFINED BENEFIT PENSION PLAN (CONTINUED)

Schedule of Funding Progress for the School Board Non-professionals

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 1994	3,254,314	2,843,262	(411,052)	114.4%	2,797,702	(14.7%)
June 30, 1996	4,548,307	4,375,384	(172,923)	104.0%	3,147,563	(5.5%)
June 30, 1998	6,639,823	6,115,922	(523,901)	108.6%	3,224,461	(16.2%)
June 30, 1999	7,851,323	6,477,988	(1,373,335)	121.2%	3,315,179	(41.4%)
June 30, 2000	9,313,162	6,894,129	(2,419,033)	135.1%	3,498,981	(69.4%)
June 30, 2001	10,179,651	7,270,722	(1,908,929)	140.0%	2,697,582	(107.8%)

NOTE 12 -- LENGTH OF SERVICE AWARDS PROGRAM

A. Plan description and provisions:

On January 1, 1995 the Fauquier County Board of Supervisors adopted the length of service awards program for the Fauquier County Fire and Rescue Association and its member companies to recognize the service provided by the volunteers. This plan is single employer, defined benefit pension plan. This plan is open to any volunteer firefighter over the age of eighteen. Participants vest in five years. The participants in the plan earn a fixed dollar benefit based on years of service. No separate financial report is issued for the plan.

At June 30, 2002 the program membership consisted of the following:

Current Volunteers	286
Retirees, disabled members & beneficiaries	53
Terminated vested members	33

B. Funding policy:

This plan is offered to volunteer personnel with no covered payroll. Benefits are paid based on a fixed dollar amount for years of service with a ten year vesting schedule. Benefits accrue at the rate of $10 per month for each two years of active service with a maximum of $250 per month. Since the County fully funds the plan, refunds are not paid. The plan does not provide for postretirement increases. The contribution rate is determined using an entry age normal actuarial funding method. The actuarial value of the plan assets is equal to the market value of the assets. Present and future assets in the plan are assumed to earn an investment rate of return of 5.5% compounded annually. There is no inflation factor or salary increase factor used since there is no covered payroll.

The contributions to the plan for the fiscal year ended June 30, 2002 totaled $430,300. The Program's funding policy provides for periodic County contributions at actuarially determined rates that are sufficient to accumulate adequate assets to pay benefits when due. At June 30 the plan had net assets available for benefits totaling $1,704,355. Unfunded prior and past service costs total $1,690,344 and will be fully amortized in 10 years. The plan additions fund the cost of administering the plan.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 1997	455,708	100%
June 30, 1998	471,953	100%
June 30, 1999	450,185	100%
June 30, 2000	437,684	100%
June 30, 2001	429,476	100%
June 30, 2002	430,300	100%

NOTE 12 -- LENGTH OF SERVICE AWARDS PROGRAM (CONTINUED)

Historical trend information about the program is presented below as required supplementary information. This information is intended to help users assess the program's funding status on an on-going basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems.

C. **Schedule of funding progress:**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities	Funded Ratio
December 31, 1997	718,240	2,334,392	1,616,152	30.8%
December 31, 1998	1,044,776	2,367,901	1,323,125	44.1%
December 31, 1999	1,254,341	2,472,873	1,218,532	50.7%
December 31, 2000	1,411,479	2,496,242	1,084,763	56.5%
December 31, 2001	*	*	*	*

* The Actuarial data was not available at time of the printing of the Comprehensive Annual Financial Report.

Analysis of the dollar amounts of plan net assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the program's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker.

NOTE 13 -- DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling $3,132,765 is comprised of the following:

A. **Deferred Property Tax Revenue**

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled $3,026,805 at June 30, 2002.

B. **Prepaid Taxes**

Property taxes due subsequent to June 30, 2002 but paid in advance by the taxpayers totaled $105,960 at June 30, 2002.

NOTE 14 -- DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In compliance with revisions to section 457 of the Internal Revenue Code effective August 20, 1996, the assets are held for the exclusive benefit of County employees. Accordingly, assets and the resulting liabilities of the Deferred Compensation Plan are not recorded in the County's financial statements.

NOTE 15 -- CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the County to place a final cover on its landfill when closed and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The County recognizes a portion of these costs in each operating period. The County will incur the estimated total closure cost of $13,439,547 over the next twenty-five years. The County estimated all closure and postclosure costs at June 30, 2002 total $3,520,503.

NOTE 15 -- CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)

All amounts recorded as a liability are estimates of all closure and postclosure costs at June 30, 2002.

Most of the closure and postclosure care costs will be paid only after the landfill is closed. The County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The liability reported as of June 30, 2002 is based on use of 13.3% of the total estimated capacity of the new landfill and 52.4% of the old landfill. The County expects to close the new landfill in 2055. Actual closure and postclosure care costs may be higher due to inflation.

If these estimates are inadequate or additional postclosure requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs will need to be paid by the county taxpayers.

NOTE 16 -- ENTERPRISE SEGMENT INFORMATION

The County maintains two enterprise funds that are intended to be self-supporting through user fees charged for services to the public. Financial segment information as of and for the year ended June 30, 2002 is presented below.

	Solid Waste	Airport	Total
Operating revenues	$ 5,161,113	$ 12,351	$ 5,173,465
Depreciation expense	160,210	27,471	187,681
Operating income	1,960,833	(43,323)	1,917,511
Operating and capital grants	34,057	732,051	766,108
Operating transfers	58,508	52,209	110,717
Net income	1,907,705	779,238	2,686,943
Property, plant and equipment additions			
Additions	394,764	800,369	1,195,133
Deletions	(65,970)	-	(65,970)
Net working capital	1,561,646	128,256	1,689,902
Total assets	7,685,465	6,350,791	14,036,256
Bonds & other long-term debt	6,543,243	-	6,543,243
Total equity	541,325	6,284,503	6,825,828

NOTE 17 -- RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County and its component unit carry commercial insurance to cover all losses, including workers' compensation. During the year ended June 30, 2002 there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the County's coverage for any of the past three fiscal years.

Fauquier County, the Fauquier County School Board and the Fauquier County Water and Sanitation Authority established a consolidated health care benefits plan for their employees. The plan is based on a service contract with Trigon, which bills amounts derived from actual expenses incurred or claims filed. The plan includes a maximum liability amount of 25% over the annual estimate provided by Trigon. The participating agencies have established a reserve fund to cover the 25% potential liability.

Each participating agency is responsible for paying the amount of actual expense incurred. This plan went into effect October 1, 1994.

NOTE 17 -- RISK MANAGEMENT (CONTINUED)

Liabilities for unpaid claims and claim adjustment expenses are estimated based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.

Changes in the balances of claims liabilities during the year is as follows:

	2002	2001
Unpaid claims, beginning of fiscal year	$ 700,300	$ 968,300
Incurred claims, (including IBNR's)	7,751,500	6,441,175
Claim payments	7,453,500	6,709,175
Unpaid claims, end of fiscal year	$ 998,300	$ 700,300

NOTE 18 -- SURETY BOND

Fidelity and Deposit Company of Maryland – Surety	Amount
Gail Barb, Clerk of the Circuit Court	50,000
Beth Ledgerton, Treasurer	500,000
Ross D'Urso, Commissioner of the Revenue	3,000
Joseph Higgs, Jr., Sheriff	30,000
Above constitutional officers' employees - blanket bond	50,000
Clerk of the School Board	10,000
United States Fidelity and Guaranty Company – Surety	
All County employees except Treasurer, Sheriff, Clerk of Circuit Court and School Board employees	100,000

NOTE 19 -- COMMITMENTS AND CONTINGENCIES

As of June 30, 2002 contractual construction commitments in the Capital Projects fund totaled $350,490 for the School Division.

Federal programs in which the County and School Board participate were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests that may result in disallowed expenses. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

NOTE 20 -- SUBSEQUENT EVENTS

On July 17, 2002, the County borrowed $1,700,000 in a lease purchase agreement with The Fauquier Bank. The funds are used to construct a library and the term of the borrowing is ten years.

On November 1, 2002, The Virginia Resource Authority refunding the 1993 revenue bond.

NOTE 21 -- CLAIMS AND LITIGATION

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The estimated potential claims against the County resulting from such litigation should not materially affect the financial statements of the County.

NOTE 22 -- COMMITMENTS UNDER NON-CAPITALIZED LEASES

The County leases the following property:

Property		Annual Payments
Ashby Street Office	$	12,600
Waterloo Street Parking Lot		7,000
Registrar's Office, John Marshall Building		27,552
Bealeton Library		31,895
Culpeper Street Office		12,000

All leases are subject to annual appropriation of rental payments.

NOTE 23 -- SUPPLEMENTAL APPROPRIATIONS

During the course of the year, the Board of Supervisors enacted supplemental appropriations, primarily to authorize expenditures from grants received during the year, to re-appropriate unexpended funds from the prior year and to fund certain capital projects. The effect of these appropriations was an increase in the budget in the amount of $5,063,136.

NOTE 24 -- ADVANCE REFUNDING

On July 15, 2001, the County issued $8.495 million in General Obligation Bonds with an average interest rate of 4.25% to advance refund $8.0 million of outstanding 1993 series bonds with an average interest rate of 5.5%. The net proceeds of $8.495 million (after payment of approximately $122,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 series bonds, and to call the bonds on July 15, 2003. As a result, the 1993 series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group of the school board component unit. The refunding proceeds have been allocated to the school board component unit in the amount of $8.495 million.

The County advance refunded the 1993 series bonds to reduce its total debt service payments over the next 11 years by approximately $$266,000, and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $212,674.

NOTE 25 -- NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments, which establishes specific standards for basic financial statements, management's discussion and analysis (MD&A) and certain supplementary information other than MD&A. This statement will become effective for the County in fiscal year 2003. Management is continuing to review the impact this statement will have on the financial statements. Entity wide statements are included as Tables 13 and 14 in the Statistical Section.